# Lam Research Corporation (LRCX)

*Updated August 19th, 2021 by Felix Martinez*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $577 | **5 Year CAGR Estimate:** | 11.8% | **Market Cap:** | $82.5 B |
| **Fair Value Price:** | $605 | **5 Year Growth Estimate:** | 10.0% | **Ex-Dividend Date:** | 09/29/2021[1] |
| **% Fair Value:** | 95% | **5 Year Valuation Multiple Estimate:** | 0.9% | **Dividend Payment Date:** | 10/14/2021 |
| **Dividend Yield:** | 0.9% | **5 Year Price Target** | $974 | **Years Of Dividend Growth:** | 6 |
| **Dividend Risk Score:** | C | **Retirement Suitability Score:** | F | **Last Dividend Increase:** | 13% |

## Overview & Current Events

Lam Research Corporation (LRCX) was founded in 1980 and headquartered in Fermont, California. The company designs, manufactures, markets, refurbishes, and services semiconductor processing equipment used to fabricate integrated circuits worldwide. Lam is a major supplier of wafer fabrication equipment and services to the semiconductor industry. Its products address various applications, including thin film deposition, single-wafer cleaning, and plasma tech. The Company has a market capitalization of approximately $82.5 billion, over 10,700 employees, and produced roughly $10 billion in revenue in 2020.

On July 28, 2021, Lam Research reported results for the fourth quarter and Fiscal Year (FY)2021, ending on June 27, 2021. The Company had another great quarter to finish off the fiscal year. CEO Mr. Archer had this to say about the quarter "Lam continued its record performance in the June quarter, capping fiscal 2021 with more than 45% revenue growth and an increase of over 70% in earnings per share". The Company revenue grew over 28% compared to 4Q20 from $2.791 billion to $4.145 billion. Revenue by region shows that China and Korea represent 37% and 30%, respectively, of total revenue for the quarter. The next closest region is Taiwan, with 13%. For the full year, revenue is up 47.7%, from 4.608 billion in FY2020 to $6.805 billion for FY2021.

Net income also grew by a substantial amount of 64.3%, from $697 million to now $1,1446 million years over year. For the twelve months of FY2021, net income is up 73.6% compared to the twelve months of FY2020. Non-GAAP earnings per share (EPS) came in $8.09 for the quarter. This increased 8% compared to the third quarter of FY2021 Non-GAAP EPS of $7.49.

In the last quarterly Sure Dividend report, we estimated that The Company would earn $26.70 EPS for FY2021. However, the Company reported excellent earnings for Q4 and the entire year. For the year, the Company earned $27.22 per share, which is an increase of 67.4% compared to what LRCX earned in FY2020. For FY2022, we expect the Company to make $33.60 per share in earnings.

## Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EPS | $2.07 | $2.21 | $4.39 | $5.01 | $6.36 | $9.98 | $17.87 | $14.54 | $15.95 | $27.22 | ***$33.60*** | ***$54.11*** |
| DPS | $0.00 | $0.00 | $0.18 | $0.84 | $1.20 | $1.65 | $2.55 | $4.40 | $4.60 | $5.20 | ***$5.20*** | ***$8.00*** |
| Shares[2] | 125.0 | 173.0 | 175.0 | 177.0 | 175.0 | 184.0 | 181.0 | 160.0 | 149.0 | 145.0 | ***145.0*** | ***145.0*** |

Lam Research has grown its revenue by an impressive 18.3% growth rate over the past ten years and 16.4% over the past five years. Earnings per share have increased by over 33.2% over the past five years. We expect annual earnings growth to be 10% for the next five years, and we expect dividend growth of 9% going forward. However, The Company has had a tremendous dividend growth record over the past three years, with an average of 49.4%. The Company's most recent dividend increase was 13%, announced on August 27, 2020.

[1] Ex-Dividend and Dividend Payment Date are estimates

[2] Share count is in millions.

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*

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## Valuation Analysis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Avg. P/E | 16.9 | 16.5 | 16.9 | 14 | 12.9 | 13.2 | 8.4 | 19.20 | 20.30 | 23.90 | ***17.2*** | ***18.0*** |
| Avg. Yld. | 0.0% | 0.0% | 0.3% | 1.1% | 1.6% | 1.4% | 1.4% | 2.6% | 1.4% | 0.8% | ***0.9%*** | ***0.8%*** |

Over the past decade, Lam Research has averaged a 14.8 P/E. During trough periods in the semiconductor industry, the Company occasionally reported very low or negative earnings. We estimate a forward P/E of 18.0 for the Company should be fair value, although it naturally varies through the highly cyclical semiconductor business cycle. However, the Company has a lower PE at the current price than our reasonable price estimate. The Company has a current PE of 17.2.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

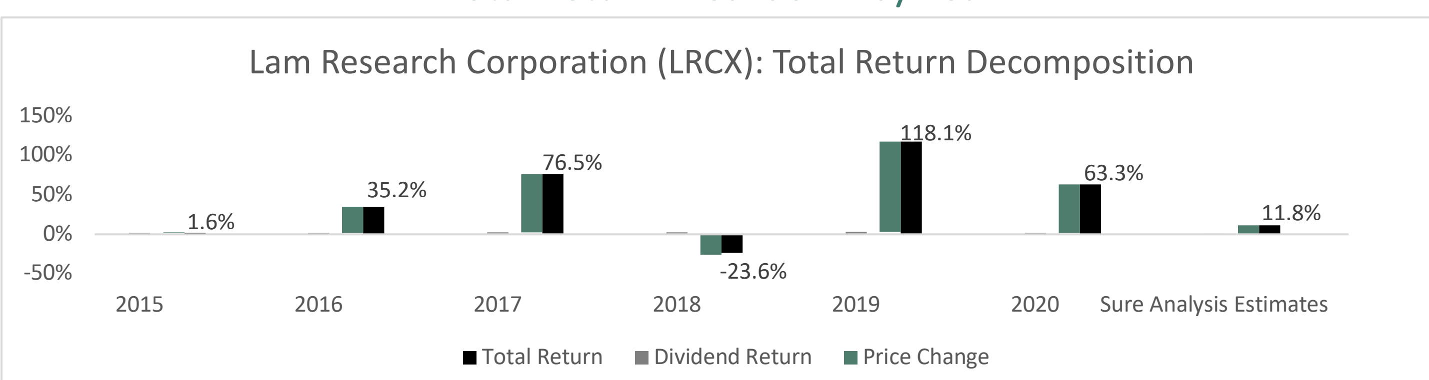
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 0.0% | 0.0% | 4.1% | 16.8% | 18.9% | 16.5% | 14.3% | 30.3% | 28.8% | 19.1% | ***15%*** | ***15%*** |

Lam Research is one of the top 3 semiconductor manufacturing equipment vendors globally, along with Applied Materials and Tokyo Electron. The Company supplies equipment to chipmakers and provides service and maintenance support. Due to propriety technologies and a highly concentrated industry, Lam Research maintains high returns on invested capital in most years and has a small economic moat. However, the semiconductor industry is highly volatile due to commodity-like supply and demand characteristics. The sector halts new supply capacity every several years and negatively impacts equipment suppliers' revenues like Lam Research. During these occasions, the Company has encountered periods of very low or negative earnings. However, it appears to be more profitable during each down cycle than before as its service revenue continues to smooth out its overall results and the Company matures. Lam Research's customer base is narrow, with Intel, Micron, Samsung, SK Hynix, Toshiba, and Taiwan Semiconductor Manufacturing Company, each making up at least 10% of Lam Research's revenue in recent years. The Company has a strong balance sheet with more assets than debt and a total debt/equal ratio of 0.8, decreasing from a previous report of 1.1.

## Final Thoughts & Recommendation

Lam Research is a leader in a growing industry with a strong balance sheet. The Company has the potential for an estimated forward return of 11.8%, and we consider it to be a Buy at the current price. The semiconductor industry is cyclical but expected to have strong growth over the next decade. Cloud computing, machine learning, autonomous driving, and the internet of things continue to grow in scale and relevance. With a low payout ratio, the Company pays a modest but fast-growing dividend and appears to be maturing into a solid dividend stock.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 2,665 | 3,599 | 4,607 | 5,259 | 5,886 | 8,014 | 11,077 | 9,654 | 10,045 | 14,626 |
| Gross Profit | 1,084 | 1,403 | 2,007 | 2,284 | 2,619 | 3,603 | 5,165 | 4,358 | 4,609 | 6,805 |
| Gross Margin | 40.7% | 39.0% | 43.6% | 43.4% | 44.5% | 45.0% | 46.6% | 45.1% | 45.9% | 46.5% |
| SG&A Exp. | 402 | 601 | 613 | 592 | 631 | 667 | 762 | 702 | 682 | 830 |
| D&A Exp. | 101 | 304 | 292 | 278 | 291 | 307 | 326 | 309 | 269 | 307 |
| Operating Profit | 238 | 118 | 678 | 867 | 1,074 | 1,902 | 3,213 | 2,465 | 2,674 | 4,482 |
| Operating Margin | 8.9% | 3.3% | 14.7% | 16.5% | 18.3% | 23.7% | 29.0% | 25.5% | 26.6% | 30.6% |
| Net Profit | 169 | 114 | 632 | 656 | 914 | 1,698 | 2,381 | 2,191 | 2,252 | 3,908 |
| Net Margin | 6.3% | 3.2% | 13.7% | 12.5% | 15.5% | 21.2% | 21.5% | 22.7% | 22.4% | 26.7% |
| Free Cash Flow | 392 | 559 | 572 | 587 | 1,175 | 1,872 | 2,382 | 2,873 | 1,923 | 3239 |
| Income Tax | 36 | (47) | 91 | 85 | 46 | 114 | 771 | 255 | 323 | 462 |

## Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 8,005 | 7,250 | 7,993 | 9,365 | 12,264 | 12,123 | 12,479 | 12,001 | 14,559 | 15,892 |
| Cash & Equivalents | 1,565 | 1,162 | 1,453 | 1,502 | 5,039 | 2,378 | 4,512 | 3,658 | 4,915 | 4,418 |
| Accounts Receivable | 766 | 603 | 801 | 1,094 | 1,262 | 1,673 | 2,177 | 1,456 | 2,097 | 3,026 |
| Inventories | 633 | 559 | 741 | 943 | 972 | 1,233 | 1,876 | 1,540 | 1,900 | 2,689 |
| Goodwill & Int. Ass. | 2,687 | 2,527 | 2,360 | 2,116 | 1,951 | 1,797 | 1,803 | 1,702 | 1,653 | 1,622 |
| Total Liabilities | 2,683 | 2,575 | 2,780 | 4,020 | 6,162 | 5,135 | 5,899 | 7,278 | 9,376 | 9,865 |
| Accounts Payable | 259 | 200 | 224 | 300 | 348 | 465 | 511 | 377 | 592 | 830 |
| Long-Term Debt | 1,273 | 1,304 | 1,335 | 2,361 | 4,326 | 2,693 | 2,417 | 4,490 | 5,795 | 4,954 |
| Shareholder's Equity | 5,322 | 4,676 | 5,213 | 5,345 | 6,102 | 6,987 | 6,580 | 4,723 | 5,183 | 6,027 |
| D/E Ratio | 0.24 | 0.28 | 0.26 | 0.44 | 0.71 | 0.39 | 0.37 | 0.95 | 1.12 | 0.82 |

## Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 2.8% | 1.5% | 8.3% | 7.6% | 8.5% | 13.9% | 19.4% | 17.9% | 17.0% | 25.7% |
| Return on Equity | 4.3% | 2.3% | 12.8% | 12.4% | 16.0% | 25.9% | 35.1% | 38.8% | 45.5% | 69.7% |
| ROIC | 3.4% | 1.8% | 10.1% | 9.2% | 10.1% | 16.9% | 25.5% | 24.1% | 22.3% | 35.6% |
| Shares Out. | 125.0 | 173.0 | 175.0 | 177.0 | 175.0 | 184.0 | 181.0 | 160.0 | 149.0 | 145.00 |
| Revenue/Share | 21.28 | 20.75 | 26.40 | 29.70 | 33.60 | 43.61 | 61.27 | 60.37 | 67.37 | 100.65 |
| FCF/Share | 3.13 | 3.22 | 3.28 | 3.32 | 6.71 | 10.19 | 13.18 | 17.96 | 12.90 | 22.29 |

*Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.*